



ANTHONY A. WILLIAMS
MAYOR

March 29, 2004

The Honorable Linda W. Cropp
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NW
Washington, DC 20004

Dear Chairman Cropp:

On behalf of the residents of the District of Columbia, I hereby transmit the *Fiscal Year 2005 Budget and Financial Plan*. Over the past year, our citizens have articulated their priorities in citizen summits and town hall meetings across the city, and this budget is the manifestation of those discussions. Our residents are calling for better education, public safety, health care and housing, and this budget makes critical investments to improve services in these areas.

As we invest in improved services, however, we must also maintain a high standard of fiscal responsibility. In the current economy, cities and states across the nation continue to face difficult financial circumstances. The District faces an even greater challenge in that our service needs greatly exceed our revenue capacity due to unfair restrictions imposed by the federal government. To face this challenge successfully, we must achieve a high standard of strategic focus, resourcefulness, and discipline in our budget decisions. I believe this budget meets that standard, in part, due to the valuable input of the Council.

The proposed FY 2005 budget supports \$6.25 billion in total funding and supports 34,050 full-time equivalent (FTE) staff. This change represents a 9.6 percent funding increase over the FY 2004 approved budget, and an increase of 182 FTEs. In local funds, this budget proposes \$4.2 billion in funding and supports 26,050 FTEs. This local budget

change represents an 8.9 percent funding increase over the FY 2004 approved budget and a decrease of 195 FTEs.

The growth of funding in this budget is focused on improving critical services, perhaps the most important of which is public education.

Education

At our recent Citizen Summit III, where residents from across the District joined together to articulate their priorities, education quality emerged as a top priority. Specifically, residents placed high priority on enhancing the following:

- early childhood education,
- out-of-school programs,
- teaching quality,
- school-based social services,
- adult education, and
- school buildings.

In my State of the District Address, I laid out a plan for an education renaissance to achieve these objectives. To begin implementing that plan, my proposed budget includes an additional \$22 million for DC Public Schools and \$52 million for Public Charter Schools. This and other new funding will provide for a host of school improvements, including the following:

1. **Creation of a Universal Pre-Kindergarten Incentive program.** This program will expand access to early childhood education to every 3- and 4-year old in the District. Funding will be provided through a reallocation of existing resources within our public and public charter schools as well as the Child Care Subsidy Fund in the Department of Human Services.
2. **Expansion of local support for out-of-school activities.** To achieve this expansion an additional \$2.3 million has been added to the Children and Youth Investment Trust.
3. **Creation of five new Transformation Schools in the D.C. Public Schools.** The Transformation process reconstitutes the Districts lowest performing schools by adding school-based social services, enhancing teaching quality, and accelerating building repairs. To date, 15 schools and programs have undergone Transformation and have shown significant improvement in student performance.
4. **Creation of eight new Public Charter Schools.** New funding in the amount of \$14 million will be provided to support these new schools, and thereby enhance the competitive environment that helps foster innovations in teaching and provides District parents with greater choice. Furthermore, we will expand

assistance for Charter Schools in acquiring facilities through federal partnerships like the City Build program and through more strategic sharing of existing government facilities.

5. **Upgrade of school security.** A new funding earmark of \$4 million is included in the DCPS capital budget to provide security system upgrades at public schools, including Ballou High School.
6. **Full funding for school modernization.** The proposed capital budget includes \$173 million in capital funding for DCPS, which fully funds their request.

These service enhancements for school-age children will be supplemented by efforts to improve adult education. Having built a new set of adult literacy centers in recent years, the District will now focus its efforts on strengthening the collaboration between libraries, employment services, and the University of the District of Columbia to enhance the quality of our current adult literacy offerings. Through these initiatives the FY 2005 budget will support significant improvements in our residents' top education priorities.

Beyond these efforts, however, there remains a level of reform needed that no amount of funding can achieve. Specifically, the current school governance structure creates fractured accountability for education where the School Board sets policy, the Mayor and Council control funding, and the Superintendent is hamstrung with conflicting direction and decentralized authority.

To bring more streamlined and effective management to the school system, a superintendent must be empowered and supported to implement large scale reform. This empowerment can only be achieved, I believe, through a change in the governance system. My proposed change will call for the superintendent to report to the Mayor, with stronger Council oversight. It also changes the current school board role to one of policy-making rather than management oversight. Only through these changes do I believe that a large number of District school children will see improvements in their education. Several weeks ago I proposed the *Omnibus Board of Education and DC Public Schools Restructuring Act of 2004* to bring this change about. I now renew my request that the Council enact this legislation.

Public Safety

In addition to education, residents consistently identify public safety as a major priority. Specifically, attendees at the most recent citizen summit identified greater police presence and juvenile justice as top priorities for service improvement. To achieve these improvements, the proposed budget includes the following initiatives:

1. **Deployment of additional officers to high-crime neighborhoods.** The FY 2005 budget includes \$6 million in new funding to continue the deployment of 200 new police officers. Hiring of these officers began in 2003 and continues in 2004, but

this expansion has been funded through a federal grant that expires at the end of this fiscal year. Therefore, these new local funds are essential to maintaining this service level. In addition, the FY 2005 budget also supports a “civilianization” initiative through which approximately 80 police officers in administrative roles will be replaced by civilians, thereby allowing the deployment of those officers to neighborhood patrol.

2. **Funding of the Hot Spots initiative.** Recognizing that violent crime tends to concentrate in certain geographic areas and that solutions for reducing crime in these areas requires more than police officers, I have established the Hot Spots initiative. The Police Department has identified 14 hot spots throughout the District where violent crime is concentrated. Through this initiative, we are marshalling the resources of the entire District government to address the physical and social conditions in these areas that breed crime. I have include \$10 million in the Capital budget for infrastructure investments in these areas.
3. **Establishing services at the Youth Services Center.** Construction will soon be complete on a new facility that will provide diagnostic assessment and specialized treatment services as appropriate for youth detainees. The addition of this facility will greatly enhance the continuum of services that are a part of the District’s juvenile justice system. New operating costs in the amount of \$3 million have been included in this budget.
4. **Expanded anti-violence initiatives among youth.** This proposed budget includes \$800,000 in new funding to support a network of community based programs that provide mentorship, counseling, and other services to encourage young people in choosing positive and productive behavior.

Health Care

In the area of health care the FY 2005 budget continues expanding health care services for the uninsured, which citizens consider a major priority. Specifically the proposed budget includes funding to achieve the following:

1. **Expanded coverage for traditional Medicaid clients.** The proposed budget expands cost reimbursements to allow patients greater access to care and to enroll a larger number of uninsured individuals in this program.
2. **Full funding for the Health Care Alliance.** The District’s health care safety net – health care coverage for those not eligible for Medicaid but not able to afford coverage on their own – is fully funded in the proposed budget. We have restructured the Alliance contract to control costs, to enhance care, and, most importantly, to ensure a focus on primary care, so that an emergency room does not serve as the first stop for health care for the District’s poor.

3. **Expanded treatment for the elderly, mentally challenged, and HIV/AIDS patients.** Through newly established Medicaid waivers these populations will now receive greater access to medical care. The proposed budget includes \$24 million in new funding for this purpose.
4. **Facility upgrades at community clinics and "Medical Homes."** The capital budget includes \$15 million in new funds over 3 years to modernize and improve the quality of care delivered at community clinics so that District residents have access to quality primary health care in their neighborhoods.

A recent national study showed that the percentage of residents without health insurance in D.C. is significantly lower than the national average. Through the budget enhancements presented above, the District can continue reducing the percentage of uninsured residents.

Affordable Housing

Affordable housing also ranks high among the top priorities of District residents. Recently the Council and I established a very promising tool for producing more affordable housing: the Housing Production Trust Fund. Under current law this fund is slated to receive 15 percent of deed recordation and transfer tax proceeds for the District.

While this funding mechanism may produce significant resources over time, there is a need to provide more robust funding on a more immediate time frame in order to aggressively produce a large volume of affordable housing. To address this challenge my budget proposes securitizing the revenues earmarked for the Housing Production Trust Fund. Specifically this measure will yield \$275 million for the fund in FY 2005, which could then be used to leverage many hundreds of millions of dollars in additional private development funds. The District then will use a 20-year stream of revenues at \$20 million per year to retire the securitization bonds. This proposal improves the current funding mechanism by:

1. Eliminating the fluctuations of contributions;
2. Guaranteeing the proceeds, rather than leaving contributions subject to annual reallocations;
3. Standardizing the contribution amount for the District so that government-wide financial planning can be rationalized; and
4. Providing a large-scale investment pool that allows for major projects to be completed, thereby maximizing the number of affordable housing units produced.

This proposal not only satisfies many competing concerns, but it also capitalizes on timing. Interest rates are at a very low level right now, thereby allowing for a maximum yield on this securitization. The District faces a great opportunity that should not be missed.

Job Training

The final area of great citizen emphasis in recent dialogues is the availability of job training opportunities. This budget supports job training in the following ways:

1. **Continued support for expanded one-stop job training centers.** During recent years the District has expanded community-based job training centers to provide greater access to citizens. The current budget supports the further development of these centers as they identify new training opportunities for District residents.
2. **Expanded local funding for summer jobs for youth.** Each year the District strives to place at least 5,000 young people into productive summer employment. The FY 2005 budget adds \$2.7 million to ensure this goal can be reached.
3. **Job training and related support for ex-offenders reentering the community.** As ex-offenders are released from prison, employment and other assistance could reduce the likelihood of a return to crime. To that end, this budget includes \$1 million in new funding to expand this support in FY 2005.

Through these initiatives the District will enhance job training opportunities through both general and targeted means.

These initiatives, coupled with other service improvements across the District, will help improve services for residents across the District. As we pursue these enhancements, however, we must ensure that the cost of government is funded in a balanced, fair, and responsible way. The following discussion presents the funding approach that supports this budget.

Preserving Fiscal Balance

Over recent years there have been concerns raised that the growth of spending in the District budget cannot be supported by our local revenues. I not only share this concern, I have been among the most vocal in trying to address it. Due to unfair restrictions imposed by the federal government, the District must provide the same services as a city, county, and state, but cannot collect revenues as those other jurisdictions do. Moreover, our population has much greater service needs than those of other states, making the imbalance between revenues and expenditures even greater.

These service needs – and their corresponding cost growth – are found in three specific areas: human services, education, and public safety. As documented by the U.S. General Accounting Office (GAO), the District has especially high numbers of young people, poor people, and people living in densely populated areas. These three factors are the major drivers for high-cost service needs in the areas of human services, education, and public safety.

The District's budget growth reflects these changes. From FY 2004 to FY 2005 the areas seeing the greatest budget growth are human services (\$123 million) and public education (\$85 million). Public Safety also experienced large growth as well (\$49 million). Together these three areas account for approximately 75 percent of new expenditures. Likewise, these areas have received the highest dollar increases during the past 6 years.

Despite the pressure to fund these services, however, the District must balance its budget each year, and we do. Some may say that our continual balance proves that the structural imbalance does not exist, but the truth is that we manage to balance each budget only by making major sacrifices in other service needs, and by asking our citizens to continue shouldering one of the highest tax burdens in the nation.

This year is no exception. After estimating costs to meet critical service needs, early projections showed expenditures exceeding revenues by \$292 million. To resolve a potential budget gap of that size, a budget proposal must be fair and responsible. On one hand the budget cannot be balanced through service reductions alone because a gap of that size would require draconian cuts. On the other hand, we cannot overburden taxpayers, particularly given the District's current tax structure. The best solution, I believe, combines a balance of spending reductions and revenue increases, and targets each of those in a direction that minimizes adverse impacts on residents, businesses, and the long-term economic growth of the District.

I believe my proposed FY 2005 budget provides such a solution: Approximately half of the potential gap is closed through spending reductions, and the other half is closed through new revenues. Specifically, the expenditure reductions consist of the following:

- **Local budget reductions in agencies** (\$62 million). These reductions were targeted toward efficiencies or elimination of low priority activities, but many will affect services, either internal to the government or otherwise.
- **Expenditure transfers to non-local funds** (\$28 million). Through these transfers local expenditures were offset by existing funding from other sources.
- **Deferral of duplicative spending through the Tobacco Trust Fund** (\$59 million). Current law calls for this amount to be set aside in a trust fund, then applied to health-related programs and financial reserves. Given the far greater spending increases already devoted to health-related programs and financial reserves, further spending for these purposes proved to be unaffordable.
- **Deferred reserve contributions** (\$8 million). The District will defer additional contributions to its reserves, which already equal 7 percent of the local operating budget.

To close the remaining gap the following revenue enhancements are proposed.

- **Fund balance use (\$54 million).** Surplus revenues from previous years will be used to supplement current revenues on a one-time basis.
- **Increased penalties and fines (\$19 million).** These measures include increased penalties on speeding, running red lights, and major parking violations.
- **Closing of corporate tax loopholes (\$3 million).** Corporations transferring income to states with no taxation would now be required to pay taxes in the District.
- **Health care provider tax (\$18 million).** Like 37 other states, the District would institute a tax that will generate revenue to support expanded services in elder care, treatment of the medically disabled, and general health services. The resources provided through this tax will be matched at a rate of 70 federal dollars for every 30 dollars in local revenue.
- **Recovering deed/recording transfer taxes (\$20 million).** This recovery would result from securitizing the Housing Production Trust Fund payments at a guaranteed funding stream of \$20 million annually.
- **Other miscellaneous fee and tax adjustments (\$35 million).** These include fees for building inspections, drivers licenses, and parking; taxes on out-of-state bonds; and recovery of unclaimed property. They serve the dual purpose of not only generating revenues but, more importantly, achieving policy goals and enhancing neighborhood quality of life.

In addition to these initiatives, the multi-year financial plan demonstrates that the budget will not be balanced if the implementation of new tax cuts takes place in FY 2006 or FY 2007, as previously anticipated by recent revenue estimates. Therefore my budget proposal postpones the implementation schedule for Tax Parity to resume in FY 2008, which is the first year in which financial projections indicate that this implementation may be possible.

Through the expenditure reductions and revenue enhancements presented above, the FY 2005 Budget and Financial Plan is not only balanced, it is balanced in a fair and responsible manner. In closing, I thank you and the Council for your consultation in the development of this proposal, and I look forward to our continued cooperation in finalizing and executing this package.

Sincerely,



Anthony A. Williams
Mayor